LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7044 **NOTE PREPARED:** Jan 10, 2006
BILL NUMBER: HB 1337 **BILL AMENDED:**

SUBJECT: County Option Gross Retail Tax.

FIRST AUTHOR: Rep. Kersey **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides that a county fiscal body may impose a County Option Gross Retail Tax of up to 1% on retail transactions in the county. The bill also provides that County Option Gross Retail Tax revenue must be used for: (1) certified shares; and (2) Property Tax Replacement Credits; for the county and cities and towns located in the county. This bill provides that certified shares may be used for any lawful purpose. It also allows the county fiscal body to determine the proportion of County Option Gross Retail Tax revenue that is allocated for use as certified shares and property tax replacement credits.

Effective Date: July 1, 2006.

Explanation of State Expenditures: *Department of State Revenue:* County Option Gross Retail Tax (COGRT) revenue would be submitted and processed through the Department of State Revenue (DOR). The impact on the DOR will depend on the size and number of counties which adopt the tax.

The DOR would also be responsible for the distribution of certified amounts to adopting counties. Each calendar year, counties would receive a certified distribution in the amount that the DOR estimates (upon recommendation of the State Budget Agency) will be generated in that county from the COGRT during the previous fiscal year. The distribution would be made in two installments, with 50% being distributed by May 1 and the remainder distributed by November 1. It is anticipated that the DOR can implement the provisions of this bill through the use of existing staff and resources.

State Budget Agency: The State Budget Agency may incur additional administrative expenses in estimating the certified distribution made to counties adopting a COGRT. Any increase in administrative costs is expected to be covered using existing staff and resources.

Explanation of State Revenues:

Explanation of Local Expenditures: A county fiscal body must hold a public hearing on the proposed ordinance for a COGRT before it is adopted. The costs of providing notice and a hearing could be offset by the revenue received from adoption of the COGRT.

Subject to the limitations in the bill mentioned below, the counties may adopt an ordinance which specifies the proportional part of the certified distribution that the county auditor must allocate to certified shares and to property tax replacement credits. The counties may also specify the method of certified share distribution. The bill also allows counties to exempt sales of food from vending machines.

Explanation of Local Revenues: This bill allows counties to adopt and impose a countywide gross retail tax of up to 1% on taxable retail sales which are sourced to the county. According to the state's most recent revenue forecast, if all the state's 92 counties were to adopt the tax at the maximum rate of 1%, they would share in tax revenues of approximately $920 M in FY 2007 and $973 M in FY 2008. This estimate is based on the Revenue Technical Committee's FY 2007 forecast (December 14, 2005).

The bill requires that at least 50% of the revenue generated in the counties that implement a COGRT must be allocated as property tax replacement credits among the county unit and cities and towns within the counties that adopt the tax.

The state's total net property tax levy for county units and cities and towns is estimated to be approximately $2,242 M for property tax payable in CY 2005. The average growth in those net levies has been 3.4% per year over the last five years. It is estimated that if all of the state's counties adopted the tax at the maximum rate of 1%, the state's total county unit and city and town unit net property tax levy in CY 2007 could be reduced by approximately 38%.

The yearly certified distribution would be made in two installments, with 50% being distributed by May 1 and the remaining amount by November 1. County auditors in the adopting counties are required to allocate at least 50% of the certified distribution as property tax replacement credits among the county unit and cities and towns, but may allocate more than 50% to replacement credits by ordinance. The amount of certified distribution remaining after replacement credits are deducted would be distributed as certified shares to the county unit and cities and towns to be spent for any lawful purpose.

The county auditors may distribute the certified distributions proportionally by location of collection, population, assessed value, or any combination thereof. The county unit's share of collections, population, and assessed value would equal the amount in a county that is not attributable to a city or town. The bill provides that if no distribution method is adopted by ordinance the certified shares are to be distributed by location of collections and the property tax replacement credits are to be distributed by assessed value.

The bill provides that if a local unit receives a certified distribution from more than one county the property tax replacement portion of the distribution must be used for credits in the area of the local unit which lies in the county which made the distribution.

The bill also provides that any amount that is allocated for property tax replacement credits but is not needed may be treated as a certified share.

State Agencies Affected: Budget Agency; Department of State Revenue; Treasurer of State; Auditor of State; State Board of Tax Commissioners; Department of Local Government Finance.

Local Agencies Affected: County fiscal bodies; Country Treasurers; County Auditors.

Information Sources: *December 14, 2005, Revenue Forecast Update*.

Fiscal Analyst: Adam Brown, 317-232-9854; Bob Sigalow, 317-232-9859.